

**Public Employees'
Retirement Board**

This report contains the results of our financial-compliance audit of the Public Employees' Retirement Board (PERB) for the two fiscal years ended June 30, 2004. We issued an unqualified opinion on the financial statements for the fiscal year ended June 30, 2004. This means the reader can rely on the financial information presented. The financial audit of the PERB's financial statements for the fiscal year ended June 30, 2003 was issued in a separate report in November 2003 (03-08).

Montana Public Employee Retirement Administration (MPERA) personnel prepare PERB financial statements from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) with adjustment. Adjustments are made to properly present financial activity.

This report contains recommendations related to the actuarial soundness of three retirement systems, compliance with state laws regarding the implementation of the Public Employees' Retirement System – Defined Contribution Retirement Plan (PERS-DCRP), and a lack of reconciliation controls over external investments. It also contains two disclosure issues concerning the PERS-DCRP INTERCAP loan. The previous financial-compliance audit report for the two fiscal years ended June 30, 2002, contained two recommendations to the PERB, which were implemented.

The listing below serves as a means of summarizing the recommendations contained in the report, the PERB response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the PERB seek legislation for funding changes to ensure the PERS-DBRP, SRS, and GWPORS are funded on an actuarially sound basis, as required by PERB policy and the Montana Constitution. 7

Board Response: Concur. See page B-3.

Recommendation #2

We recommend the PERB comply with the constitutional requirement prohibiting diversion of public retirement system assets. 8

Board Response: Concur. See page B-4.

Recommendation #3

We recommend the PERB:

- A. Seek legislation, or an Attorney General's opinion, to clarify the appropriate interpretation of state laws governing PERS-DCRP transfer calculations.
- B. Match education fund expenses with education fund contributions to eliminate diversion of pension trust fund assets. 11

Board Response: Concur. See page B-5.

Recommendation #4

We recommend the PERB implement procedures to ensure mutual and fixed fund asset balances recorded on SABHRS reconcile to external investment reports. 13

Board Response: Concur. See page B-7.